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1 – WHAT ECONOMIC RECOVERY?

The great recession supposedly ended four years ago, but the subsequent recovery has been pitiful. Income, production and job growth are meager. Why is the current recovery so weak? According to [Lee Ohanian and John Taylor](#), poorly designed and implemented government policies have impeded capital and technological investments and hiring. In other words, bad government policies – not underlying problems with the US market economy – are the primary reason why the economy has not recovered.

Since the fall of 2008, the US government has adopted dozens of policies that were advertised as being necessary to restore prosperity. These policies impacted many key economic channels, including monetary and fiscal policies, commercial and investment banking, manufacturing, housing, and the environment. But many of these policies have depressed growth by distorting the normal forces of supply and demand that are critical for a market economy to function well and create new jobs. Many of the policies that were implemented were based on old Keynesian models that advocate temporary spending increases and one-time tax rebates, while others created new regulations of economic activity in key sectors. But both of these policy responses misdiagnosed the problems facing the American economy, write the authors. The spending policies had little impact on the economy other than to increase government debt, and regulatory policies raised business costs and depressed growth.

The centerpiece of the old Keynesian stimulus policies was the 2009 \$821 billion American Recovery and Reinvestment Act (ARRA), which combined

temporary tax cuts with federal funds for national, state, and local government spending. President Obama's economic advisors stated that the ARRA would keep unemployment from rising above 7.9%, and would restore employment to its pre-recession trend around 2013. But the US labor market remains severely depressed today, and is nowhere near its pre-recession trend. There are two important reasons why the ARRA failed to restore jobs, write the authors. One is that attempts to stimulate spending likely had a much smaller impact than was advertised. The second is that the type of spending that was supposed to be undertaken – including investment in government infrastructure – simply did not materialize in any significant way. State and local governments did not use these federal funds to significantly expand infrastructure spending. Instead, these governments increased transfer payments and reduced debt, and the nation's employment rate continued to decline.

Other spending policies were aimed at propping up the hard-hit auto and residential construction industries. These policies included "Cash for Clunkers," which provided some new car buyers with payments between \$3,500 and \$4,500 by turning in an old car that was scrapped, and the Homebuyer Tax Credit, which provided some buyers of houses a tax credit of \$7,500. These policies did little to strengthen either industry. Sales of autos and homes temporarily increased while these policies were in place, but then sales declined sharply once the policies ended. These policies were pure subsidies to some auto and home buyers, with little if any impact on the industries that were supposed to be helped.

Trend Analysis That Builds Business Decisions

Other policies imposed new regulations on key sectors of the economy, including the Dodd-Frank financial regulation legislation that regulates many aspects of banking and financial intermediation. Dodd-Frank was intended to solve the nation's "too big to fail" problem, in which very large and complex banks would be bailed out should they face insolvency. But Dodd-Frank codifies the too big to fail problem. It allows regulators to identify banks deemed to be too big to fail, thus giving them certain advantages over small banks, and at the same time the legislation substantially raises the costs of doing business, particularly to smaller banks and particularly in the area of making home mortgage loans.

2 – ADVANTAGE AMERICA

[A. Gary Shilling writes](#) there are six reasons the US will dominate the future.

1. DEMOGRAPHICS

The US fertility rate of 2.06 is close to the 2.1 births per child-bearing woman needed to sustain the population in the long run.

In contrast, the fertility rates in all European countries and even Canada and Australia are below the reproduction level. Japan's, the lowest at 1.39, is compounded by the total lack of any immigration. China's fertility rate is just 1.55 because of the one-child-per-couple policy, which the government is reconsidering.

By 2040, the US working-age population ratio, 60.3%, is projected to be the highest of any developed country. China's ratio falls rapidly from 72.4% in 2010 to 63.1% in 2040 due to its one-child policy; new labor force entrants age 15-24 are already declining in number.

Even if the 2 million people who left the labor force in the last two decades for non-demographic reasons never re-enter because their

What will it take to get the US economy back on track? According to the authors that requires restoring transparency and simplicity to the tax code, including reducing the US corporate income tax rate, and reducing marginal income tax rates, which now exceed 50% in some states. In addition, growth will be enhanced by labor, energy, and environmental policy changes that make it less costly to hire workers and reduce the cost of becoming energy independent. When these changes are made, say authors, the US economy will recover strongly. But without these changes, the US economy will continue to significantly underperform, just as it has for the last four years.

skills are rusty or they prefer disability benefits and food stamps, it won't impede robust real GDP annual growth of about 3.5% after our "Age of Deleveraging" is completed.

2. ENTREPRENEURIAL SPIRIT

Another big advantage for the US is the American entrepreneurial spirit, observed by de Tocqueville in the 1830s and still going strong today. Despite perceptions of an erosion of US economic vigor, America still seems way ahead of whoever is in second place. It starts with the education system, which has many faults but does encourage free inquiry and the challenging of accepted doctrine.

3. LABOR FLEXIBILITY

An added long-term advantage for the US in international competition is her flexible labor markets. Labor unions are becoming a thing of the past, especially in the private sector and now increasingly among state and local employees.

The auto industry is a case in point. After the Great Recession drove GM and Chrysler into bankruptcy, US automakers introduced \$14 per

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